AR43

ANNUAL REPORT 1968
VEECO INSTRUMENTS INC.

Cover: Janus, Roman mythological god of endings and beginnings, shown looking back on the past, and into the future. Today's technologies are obsolete tomorrow, and Veeco's efforts, while serving today's needs, are also directed towards anticipating the requirements of the new sciences and markets of tomorrow.

Cover illustration courtesy
The Bettmann Archives

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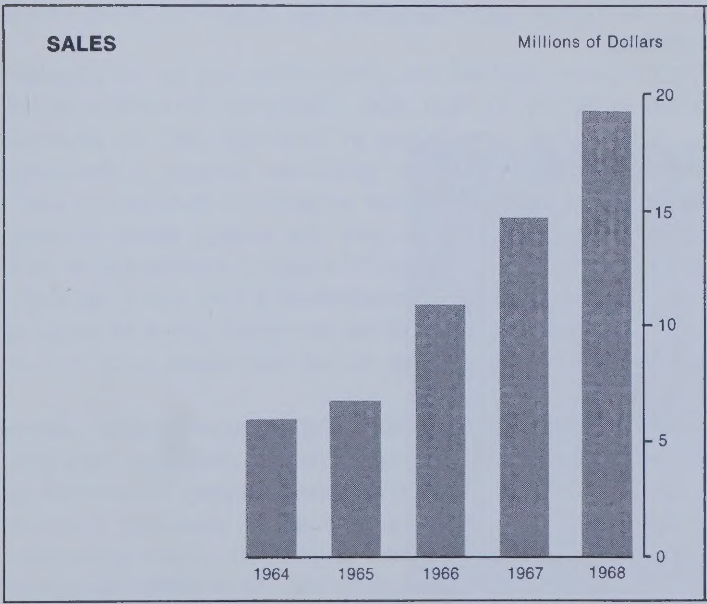
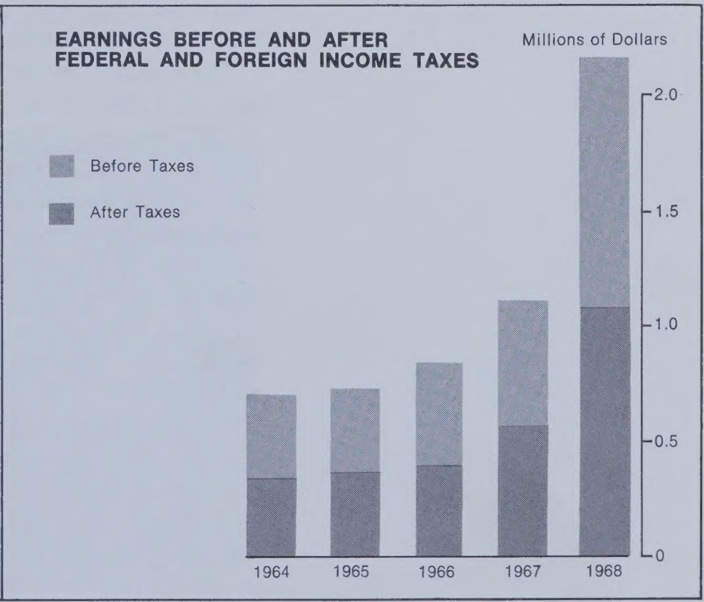
VEECO INSTRUMENTS INC./ANNUAL REPORT 1968

FINANCIAL HIGHLIGHTS

	1968	1967	1966	1965	1964
NET SALES	**$19,408,885**	$14,797,606	$11,064,422	$6,754,880	$6,009,100
INCOME Before Federal and Foreign Income Taxes	**$ 2,165,299**	$ 1,096,836	$ 835,607	$ 738,019	$ 717,094
NET INCOME	**$ 1,091,299**	$ 580,836	$ 408,607	$ 363,019	$ 351,094
Per Share (1)(2)	**$ 1.02**	55¢	40¢	37¢	35¢
SHAREHOLDERS' EQUITY	**$ 7,894,473**	$ 6,667,971	$ 6,051,510	$5,320,507	$5,216,745
Per Share (3)	**$ 7.26**	$ 6.26	$ 5.71	$ 5.46	$ 5.29

(1) Based on the average number of shares outstanding during each fiscal year.
(2) Net income for 1968, as shown, has been reduced by 7¢ per share for the Federal income tax surcharge.
(3) Based on the number of shares outstanding at the end of each fiscal year.


SALES


EARNINGS BEFORE AND AFTER FEDERAL AND FOREIGN INCOME TAXES

TO OUR SHAREHOLDERS:

Fiscal 1968 continued the upward trend of the previous four years, and was the most profitable year in your company's twenty-two year history. Sales were $19,408,885, a 31% increase over the $14,797,606 reported in 1967. Earnings of $1,091,299 represented an 88% increase over the $580,836 profit reported in 1967, and are equal to $1.02 per share compared to 55¢ per share in 1967.

Both the high vacuum equipment and the power instruments operations contributed to the higher sales and profits. The increase in profits as a percentage of sales for 1968 was the result of measures taken during the preceding year to increase overall efficiency, and we anticipate further gains in this endeavor.

The 54,000 square foot extension of the Lambda plant in Melville, Long Island, was completed on schedule and has been occupied. Operating economies already have been realized and should be enhanced as the new plant area is fully utilized.

New products continue to advance our leading position in the two fields in which we are involved. In the High Vacuum Equipment division, the 776 series of vacuum systems and evaporators, first produced this year, has been very well received. These systems, used in the production of microelectronic devices as well as in other major industries, have enabled us to compete more effectively and profitably in one of the largest product areas we serve. A new series of leak test stations, designed for very fast testing of high volume components, has attracted substantial interest. We expect a good market for these systems, both with new customers and as replacement equipment for customers using older Veeco leak detection systems.

Our position in the high vacuum field will be further enhanced by the acquisition of Andar/ITI, a small company in Palo Alto, California, in exchange for 31,288 shares of Veeco stock. Andar specializes in ultra high vacuum systems and components, including so-called "dry", or getter-ion pumps. In the past, Veeco's vacuum systems have been designed around oil diffusion "wet" pumps. A growing number of applications require dry pumps which employ chemical and ionic pumping processes. Andar/ITI's expert knowledge in this field supplements our existing engineering, manufacturing and sales capabilities, and strengthens our competitive posture in the complete range of vacuum system applications. We expect the acquisition to be completed prior to our annual meeting.

At Lambda, we continued our program of establishing a "power supply supermarket" to provide our customers with a wide range of readily available, standard, mass produced products from which to select their power supply requirements. In 1968, new models were added to existing families of standard Lambda supplies, and we introduced two completely new series (discussed elsewhere in this report) to increase the breadth of our product line. As dramatic evidence of this "one-stop-shopping" program, our catalog has grown from 9 pages in December 1966 to the latest 56 page edition recently distributed to our customers. We further implemented our "supermarket" concept this past year with a one-day delivery schedule on over 250 models (more than 90% of all Lambda models) and have seen excellent results achieved with this program.

Our international operations continue to be profitable, despite the present economic problems in Europe. We have taken steps to protect our investments outside the United States, and continue to view these external markets as excellent prospects for Veeco's products. We started an international marketing program for Lambda power instruments this past year, similar to our vacuum products program, now in its fifth year, and have achieved gratifying initial results. It is interesting to note that both our product lines are able to compete against local manufacturers because of the quality of our products.

Our employees at all levels, in a fine team effort, helped make this another banner year. With their continued support, and that of our customers and our shareholders, we look forward with optimism to further achievement in 1969.

Frank Raible

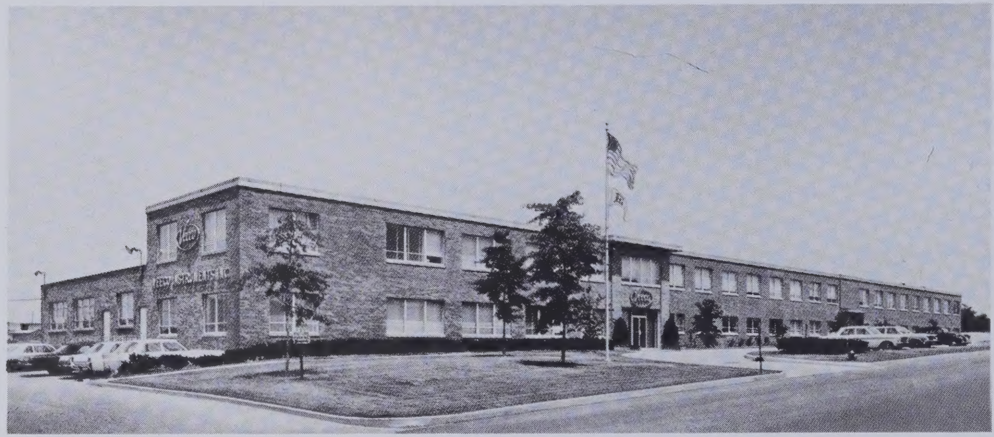
Frank Raible, President
and Chief Executive Officer

Albert Nerken

Albert Nerken, Chairman

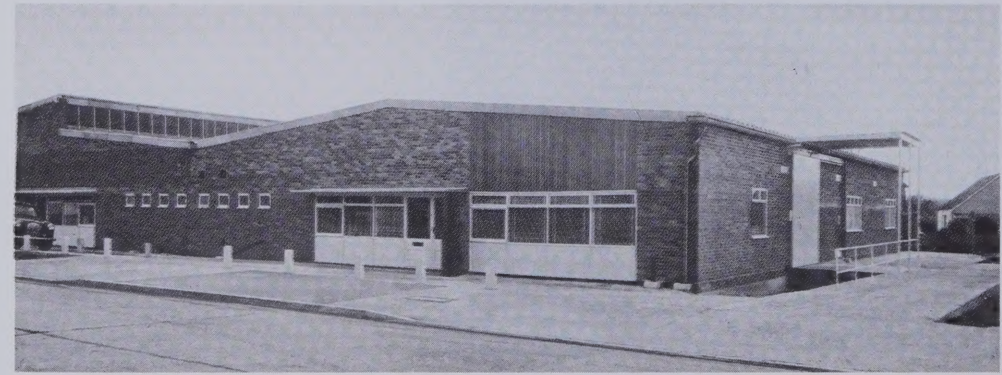
January 10, 1969

VEECO MANUFACTURING FACILITIES



VEECO headquarters and plant in Plainview, Long Island.

Lambda plant in Melville, Long Island. A 54,000 square foot addition was completed in June 1968.



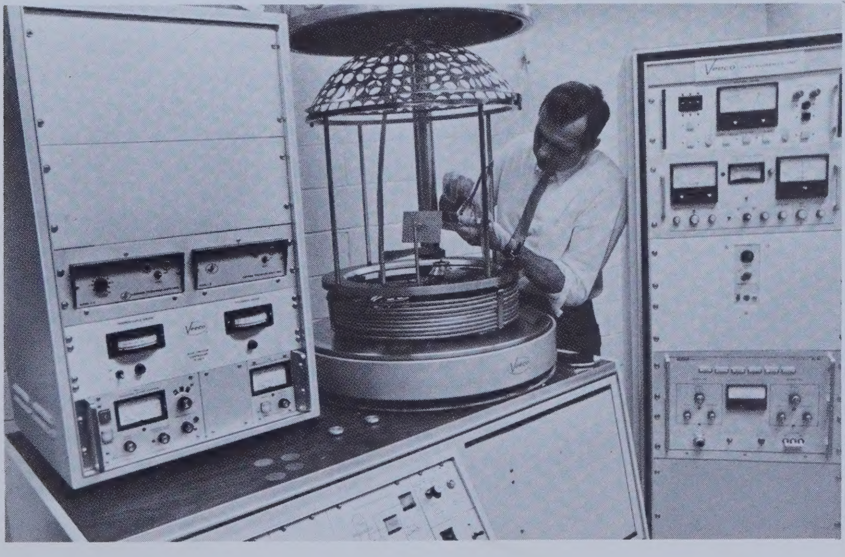
Veeco Instruments Ltd. in Waterlooville, England.

High Vacuum

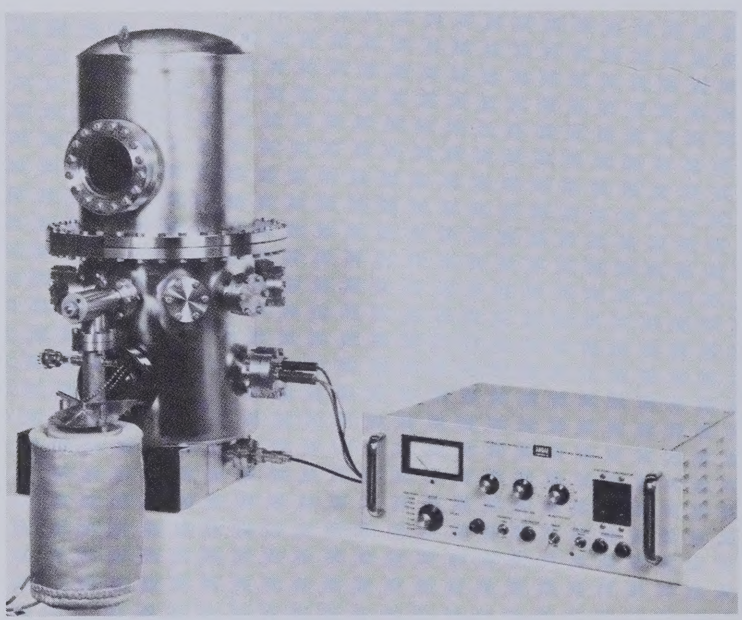
High vacuum equipment is widely used in fundamental research, nuclear technology, electronics and space research. In these fields, certain phenomena or processes can only occur in a high vacuum environment, where, for example, all but one-trillionth of the original air has been removed. For this purpose, Veeco manufactures a complete line of pumping systems, components and instrumentation.

This year we have devoted considerable attention to the problems faced by our customers who require increasingly sophisticated versions of our standard products to maintain their positions in their respective fields. New products have evolved at Veeco which are designed for this purpose. Two of our most significant product advancements are shown.

Veeco series 776 Automatic Film Deposition System. Customers' variations in techniques of vacuum deposition of thin films create special engineering and manufacturing problems. Veeco's extensive vacuum system experience enables us to profitably cope with these customer needs. This system, built from carefully selected standard modules, is typical of many of the advanced systems designed and manufactured by Veeco to satisfy the growing market for automated deposition systems. ↓



↑ Veeco's new UFT Leak Test Station provides a 10-fold increase in testing capabilities for the detection of minute leaks in small, devices such as transistors, integrated circuits, etc. Significant reduction in cost-per-test makes this a desirable system for many customers already using existing slower leak testing techniques.

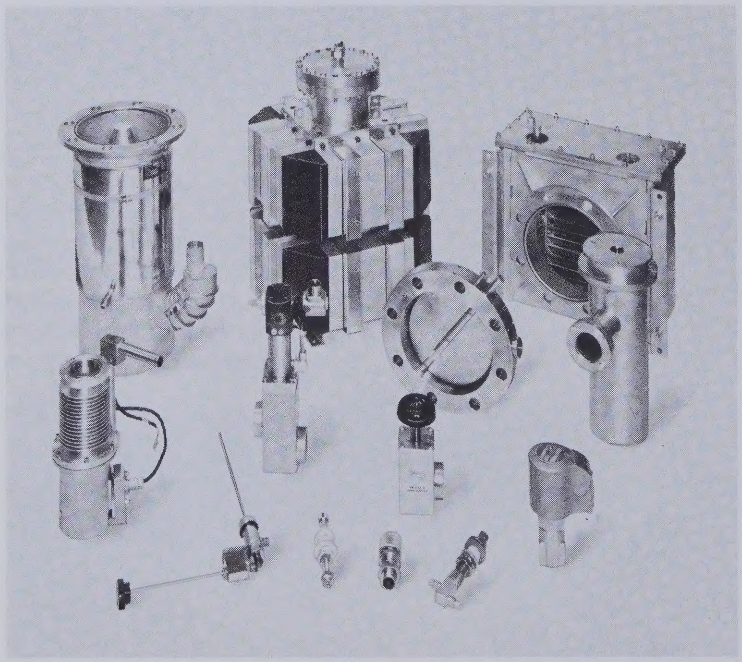


Ultra High Vacuum

The use of "dry" or getter-ion pumps for the creation of ultra high vacuum environments has increased to the point where we have found it feasible to compete in this area of the total vacuum products market. ANDAR/ITI products complement our Veeco vacuum product line, and offer additional growth possibilities to us in both vacuum component sales, and sales of complete vacuum systems employing "dry" pump techniques.

←

Table top UHV system using patented TORRGETT ™ getter-ion pump. Combining electron beam sublimation and magnetic ion pumping techniques, this system provides unusually high pump speed and long operational life. Larger systems now being developed at ANDAR/ITI will translate this research tool into a production type system that will compare favorably in cost-per-cycle with "wet" or diffusion pumped systems also made by Veeco.



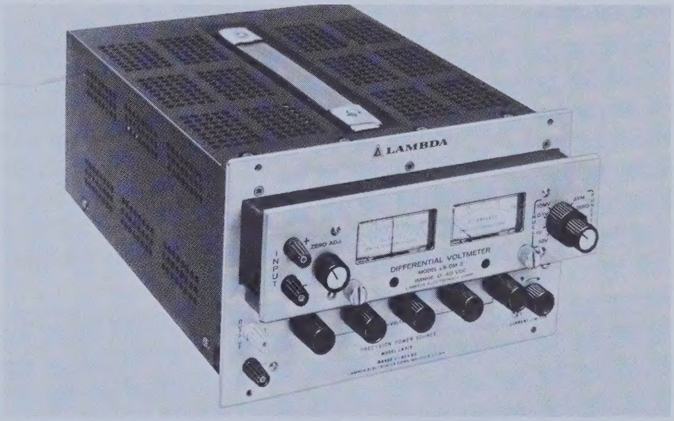
←

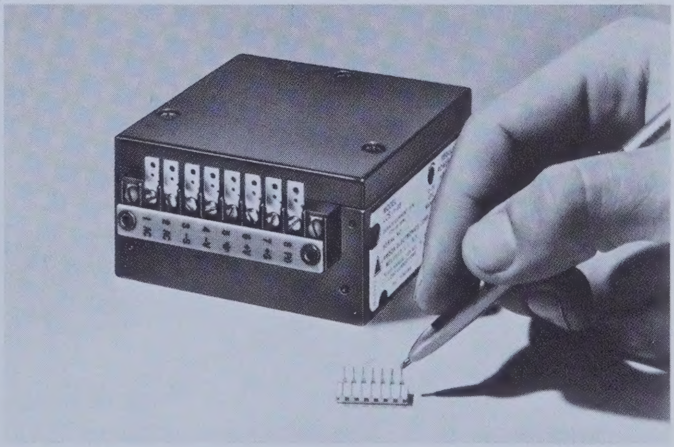
Components for vacuum systems in both the high and UHV ranges comprise a substantial part of our catalog business.

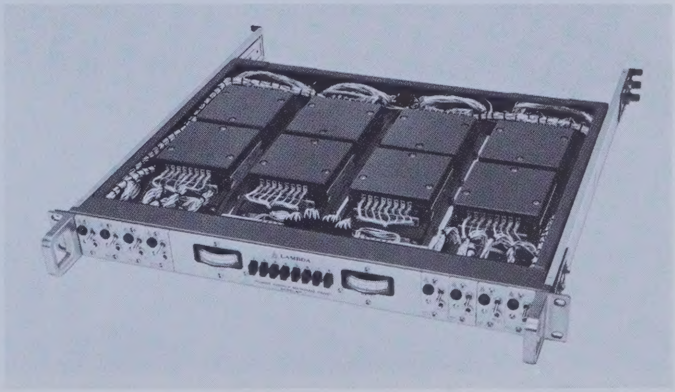
Veeco's catalog products, vacuum systems, gas analyzers and leak test stations have served the technologies of the present and will continue to meet the more demanding requirements of the future.

Lambda Power Supplies and Power Instruments

Lambda manufactures an extensive and expanding line of direct current (dc) regulated power supplies and power instruments. Dc regulated power supplies are used to convert alternating current (ac—the type of power normally supplied by power companies) to a constant dc (type of power necessary to operate electronic devices and systems). These supplies are used as components in computers, communications equipment, radar and other types of electronic systems. They find wide use in automatic test equipment, for in-plant use, and in laboratories for powering state-of-the-art electronic devices. *For the past fifteen years, all Lambda power products have carried a five year guarantee.*







Top: Lambda's new LS series High Precision Power Differential Voltmeter—As a high precision power source, it is a logical extension of the Lambda power supply line. With a plug-in differential voltmeter as an accessory, it is a new class of instrument. Power instruments and power systems will be increasingly important segments of Lambda's business.

Center: Lambda's COM-PAK MARK II™ LC series of integrated circuit regulated power supplies carries the name of the COM-PAK® series which made Lambda power supplies famous when electron tubes were used instead of silicon solid-state devices. This new series employs a specially designed integrated circuit and offers significant advantages in terms of power density, reliability and flexibility of application.

Bottom: The first complete power supply assembly systems, made up from a wide selection of standard Lambda component power supplies and accessories, were introduced in 1968. Designed to compete with custom power supplies, these power systems may be assembled by the customer or at Lambda's plant. The first systems use the LC integrated circuit regulated power packages, and are designed specifically for powering the electronics in rapidly advancing technologies.

MARKETS SERVED

Electronics

SOLID-STATE DEVICES—Veeco equipment is used by many of our customers in important phases of solid-state device production. In the upper left photo the operator is about to place a load of silicon wafers in a Veeco high vacuum system for the depositing of "thin films" as a step in the production of integrated circuits. The photo to the right shows mass production checking of transistors using a Veeco leak test station to insure that there are no microscopically small leaks present in hermetically sealed cases. Quality control test of a solid-state Thyristor using Lambda instrumentation is shown in the lower left photo.

Photo courtesy General Instrument Corp.

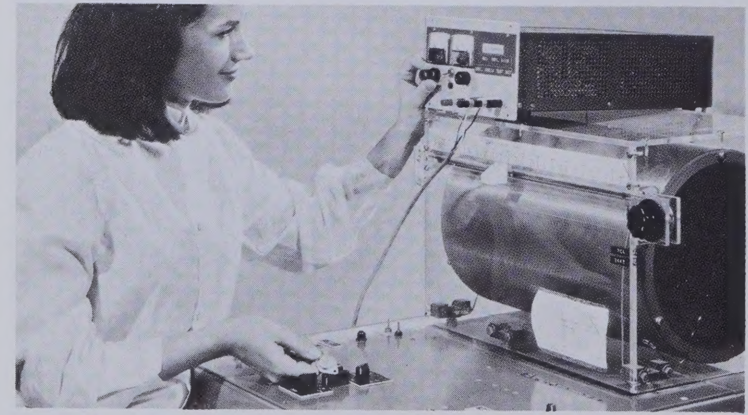


Photo courtesy RCA

Photo courtesy Texas Instruments Inc.

Electronics

COMPUTERS — Lambda annually supplies thousands of its five-year guaranteed power supplies to major computer manufacturers who rely on Lambda's consistently high standards of quality and uniformity to insure trouble-free operation of their products. The Lambda LM series serves this and other large OEM markets in the electronics industry with a complete line of competitively priced, fixed and variable voltage models.

Left: Lambda LM supplies (mounted on open side panel) used on a Stromberg Datagraphics display terminal which provides rapid two-way communication between an operator and a computer.

Right: A student uses a teaching machine to learn about automobile engines. This computer-type machine derives highly regulated current from a Lambda power system.

Photo courtesy Stromberg Datagraphics, Inc.

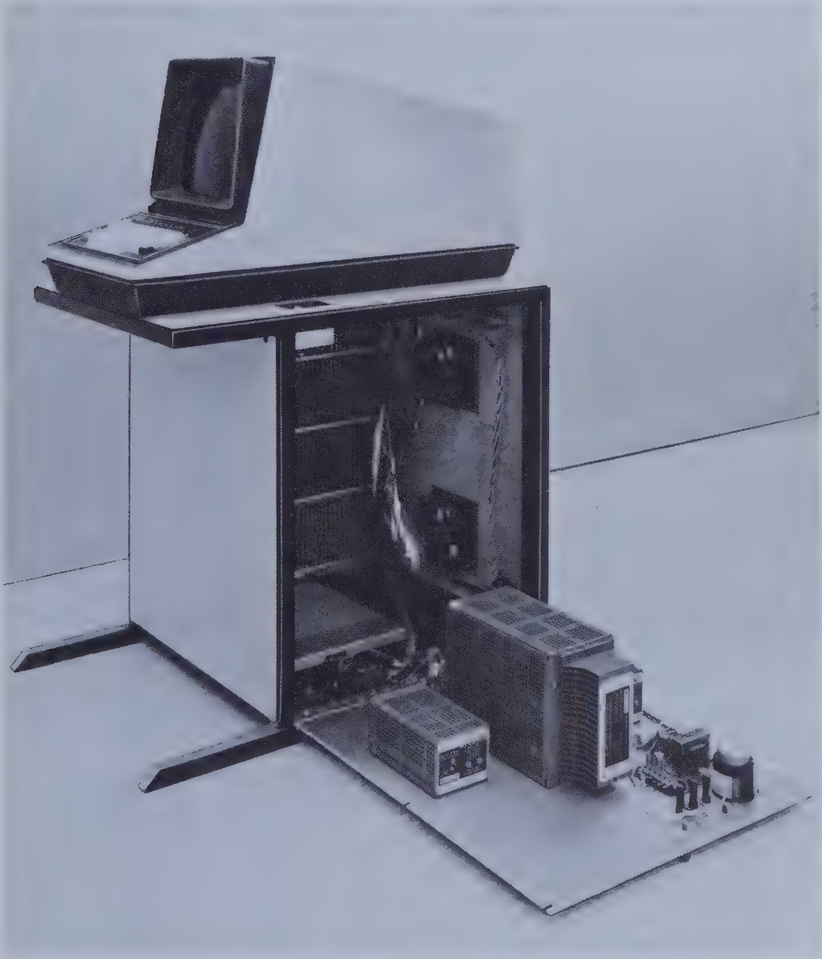
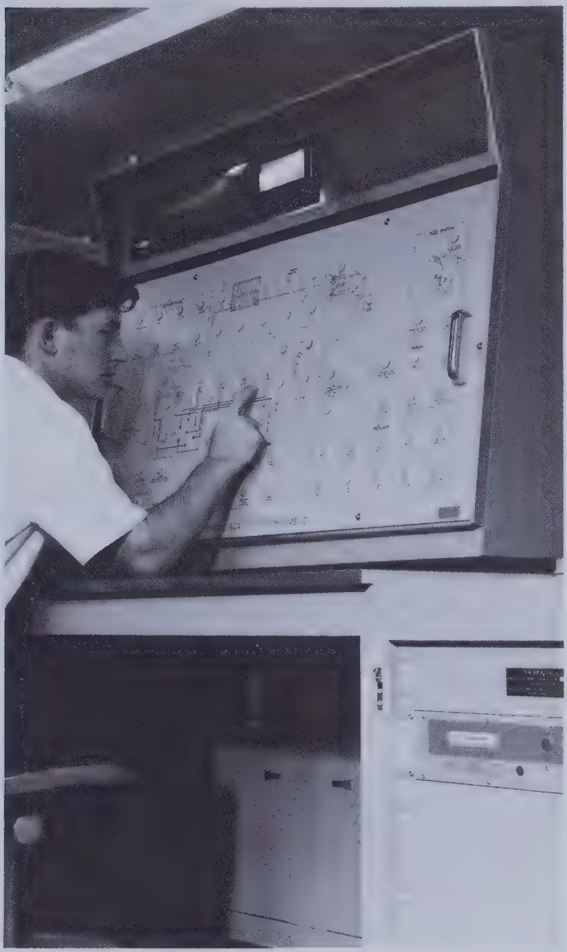


Photo courtesy Educational Computer Corp.

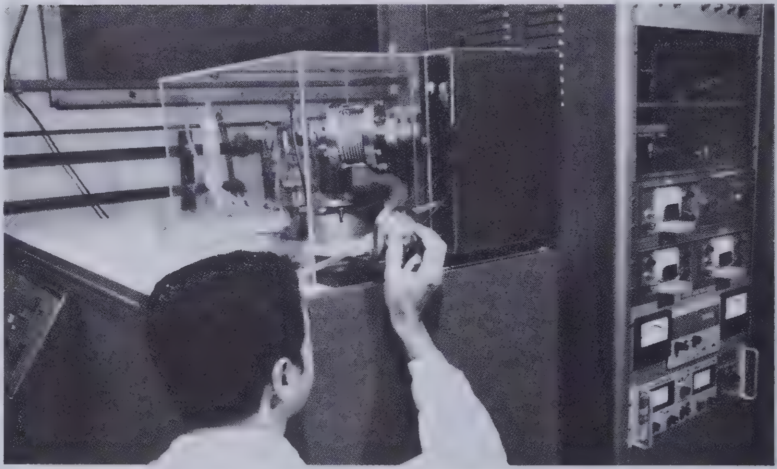


MARKETS SERVED

Research Laboratories

Experimental work on electroluminescence, the production of cold light by passage of electricity through films of synthetic chemicals. Veeco supplied the high-vacuum system on the left and the power supplies on the right.

Photo courtesy General Telephone & Electronics Laboratories Inc.



Nuclear Science

One port of the High Flux (neutron) Beam Research Reactor (HFBR) at Brookhaven National Laboratory of the Atomic Energy Commission. On the left is an array of Lambda power supplies which serve the control instrumentation; in the center is the Veeco leak detector that locates vacuum-destroying microscopic holes in the equipment. Elsewhere in the installation Veeco's valves and gauges are in use.

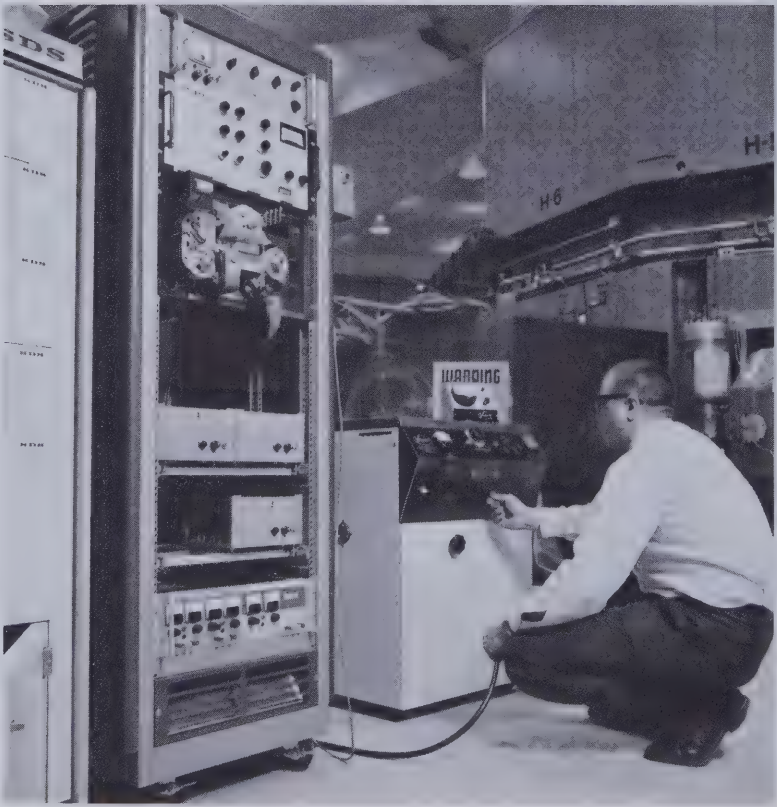
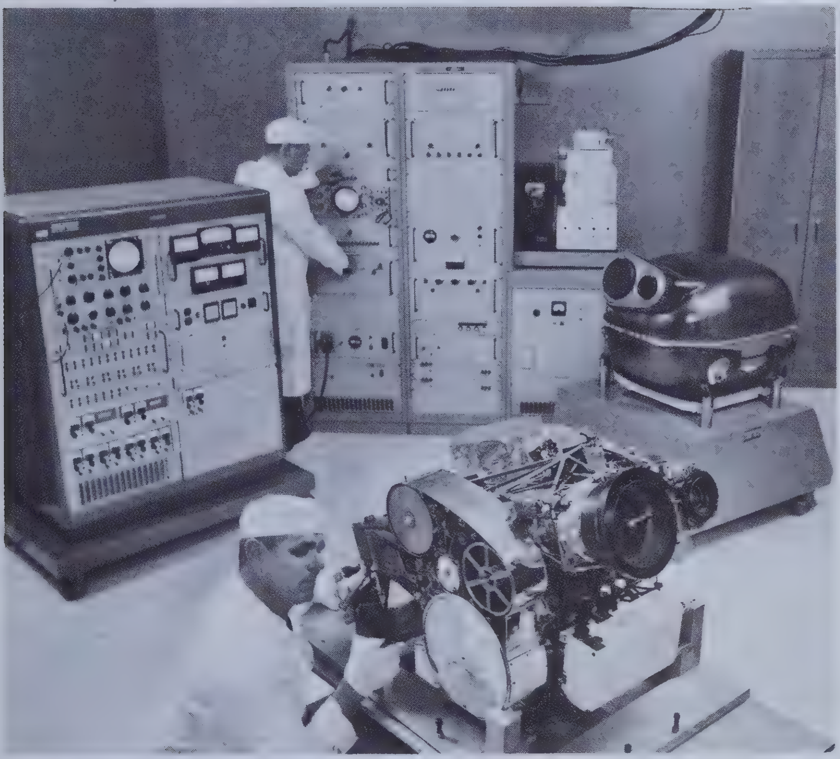


Photo courtesy Brookhaven National Laboratory

Photo courtesy Eastman Kodak Co.



Space Science

The camera that took pictures of the moon's craters from Orbiter II. Lambda power supplies are prominently employed. Because of their reliability, Lambda power supplies have been used to power many critical phases of ground support for our space program.

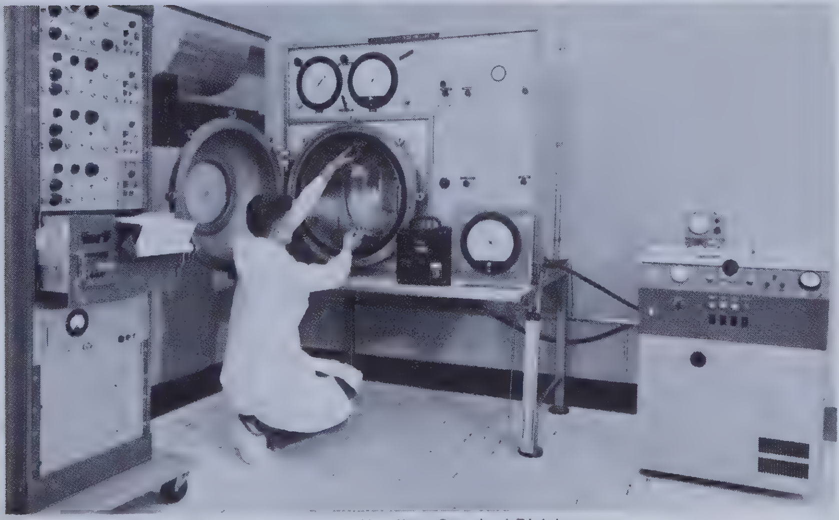


Photo courtesy United Aircraft Corporation, Hamilton Standard Division

A Veeco mass spectrometer leak test station being used in testing a space suit for Apollo 7.

CONSOLIDATED BALANCE SHEET

VEECO INSTRUMENTS INC.

ASSETS	As at September 30 1968		1967	
Current Assets:				
Cash — Note A	$ 751,431		$ 850,889	
Accounts receivable, less allowance for uncollectibles ($51,000 — 1968; $35,000 — 1967)	4,422,920		3,478,962	
Inventories — at the lower of cost or market	7,704,256		5,003,903	
Prepaid expenses	143,745	$13,022,352	131,903	$ 9,465,657
Other Assets		133,532		220,190
Fixed Assets — at cost — Note B:				
Land	545,783		545,736	
Buildings and improvements	2,748,531		2,007,797	
Machinery and equipment	2,388,973		2,056,920	
	5,683,287		4,610,453	
Less: Accumulated depreciation	1,822,975	3,860,312	1,503,567	3,106,886
Patents — at nominal amount		1		1
		$17,016,197		$12,792,734

and Subsidiary Companies

	As at September 30			
LIABILITIES	1968		1967	
Current Liabilities:				
Notes and loans payable to banks — Note A	$1,270,117		$1,400,000	
Current installments of long-term debt — Notes A and B	333,986		197,021	
Accounts payable	2,038,410		1,453,644	
Accrued expenses and sundry liabilities	1,134,285		716,771	
Federal and foreign income taxes	591,389	$ 5,368,187	328,843	$ 4,096,279
Long-term Debt — Notes A and B		3,578,785		1,905,254
Deferred Taxes and Credits		174,752		123,230
Shareholders' Equity — Notes B, C and D:				
Common stock — par value $1 per share:				
Authorized — 2,000,000 shares				
Issued and outstanding — 1968, 1,088,068 shares; 1967, 1,065,653 shares	1,088,068		1,065,653	
Capital Surplus	1,841,332		1,728,544	
Retained Earnings	4,965,073	7,894,473	3,873,774	6,667,971
		$17,016,197		$12,792,734

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

VEECO INSTRUMENTS INC. and Subsidiary Companies

	Year ended September 30			
	1968		1967	
Net sales		$19,408,885		$14,797,606
Costs and expenses:				
Cost of sales	$10,964,358		$ 8,278,185	
Research and development	1,008,329		997,213	
Selling and administrative	5,019,498		4,176,074	
Interest	285,174		218,353	
Other (income)/deductions — net	(33,773)	17,243,586	30,945	13,700,770
Income before Federal and foreign income taxes		2,165,299		1,096,836
Provision for Federal and foreign income taxes		1,074,000		516,000
Net income		1,091,299		580,836
Retained Earnings at September 30, 1967-1966		3,873,774		3,292,938
Retained Earnings at September 30, 1968-1967		$ 4,965,073		$ 3,873,774
Net income per share of common stock (based on average number of shares outstanding)		$1.02		$.55

Depreciation charged to income amounted to $324,218 in 1968 and $288,308 in 1967.

The accompanying notes are an integral part of this statement.

ACCOUNTANTS' REPORT

To the Board of Directors
Veeco Instruments Inc.
Plainview, N.Y.

We have examined the consolidated balance sheet of Veeco Instruments Inc. and subsidiary companies as at September 30, 1968, and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings present fairly the consolidated financial position of Veeco Instruments Inc. and subsidiary companies at September 30, 1968, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N.Y.
December 6, 1968

NOTES TO FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 1968

Consolidated financial statements as at and for the year ended September 30, 1967 are shown for comparison only.

Note A — The loan agreement under which long and short term notes payable (aggregating $4,566,035 at September 30, 1968) were issued to two of the Company's banks provides that the banks have a continuing lien on all of the Company's property at any time in the possession or control of the banks. In addition, the short term notes payable (aggregating $1,200,000 at September 30, 1968) provide that the banks may, at any time and without notice to the Company, apply monies on deposit to the payment of the amount owing on such short term notes, whether or not due.

One of the above short-term notes (amounting to $800,000 at September 30, 1968) provides that, on a monthly average basis, the Company will maintain a bank balance of at least 20% of the amount owed; if this balance is not maintained, the bank may assess a charge of ¾% on the deficiency.

Note B — Long-term debt consists of the following:

Notes payable-banks (see below)	$3,366,035
5½% mortgage note of a subsidiary, payable in equal monthly installments of $6,129, which include interest, to March 1, 1978 (collateralized by land, building and improvements with an aggregate cost of $1,959,085)	546,736
	$3,912,771
Less: Current installments	333,986
	$3,578,785

During the year, the Company borrowed $3,500,000 from two banks. Of this amount, $2,974,706 was used to pay pre-existing loans to one of the banks. The notes payable-banks are evidenced by promissory notes which provide for interest ranging from 5⅝% to 6⅜%, depending upon the prime commercial loan rate of one of the banks. The loan agreement provides for quarterly payments of $125,000, including interest; the remaining principal balance (calculated to be $1,997,380 assuming the maximum interest rate) is due February 28, 1973.

The loan agreement contains various restrictions on actions of the Company and its subsidiaries relating to, among others, the creation of indebtedness and the maintenance of minimum consolidated working capital and net worth (as defined). The agreement also limits the Company and its subsidiaries in acquiring its capital stock, paying dividends (other than stock dividends), making any other distributions on its capital stock and making pre-payments of funded debt (as defined). As at September 30, 1968, expenditures for such purposes are limited by formula to approximately $975,000.

Note C — In connection with an acquisition in 1966, the Company issued warrants entitling the holders to purchase through March 1971, a total of 25,000 shares of the Company's common stock at $7.50 a share. During the year, warrants were exercised for 250 shares, resulting in increases of $250 in common stock and $1,625 in Capital Surplus.

Under the terms of the Company's 1964 qualified stock option plan, executive employees, other than the Chairman of the Board of Directors and the President of the Company, may be granted options until 1974 at a price not less than the market value of the stock on the date of grant; such options shall be exercisable in such manner as the Stock Option Plan Committee may determine. The number of shares which may be purchased and the purchase price shall be adjusted pursuant to antidilution provisions of the plan.

During the year, options were (1) granted for 4,250 shares at a price of $11.75 a share, (2) cancelled for 5,000 shares (including options for 2,000 shares previously issued and outstanding under the Company's former stock option plan, which was terminated in 1964, and continued in force under the original terms of such plan) and (3) exercised for 22,165 shares, (including 1,215 shares under the former plan) resulting in increases of $22,165 in common stock and $111,163 in Capital Surplus. As at September 30, 1968, options to purchase 31,400 shares of stock were outstanding at prices ranging from $5.25 to $11.75 per share, of which options for 15,750 shares were exercisable. Additional options for 1,950 shares may be granted under the 1964 plan. Within certain limitations, options granted under the plan are exercisable over a five-year period.

In November 1968, the Company authorized, subject to stockholder approval, an additional 45,000 shares for the granting of options under the 1964 plan. In addition, subject to the foregoing approval, the Company granted options for 22,000 shares.

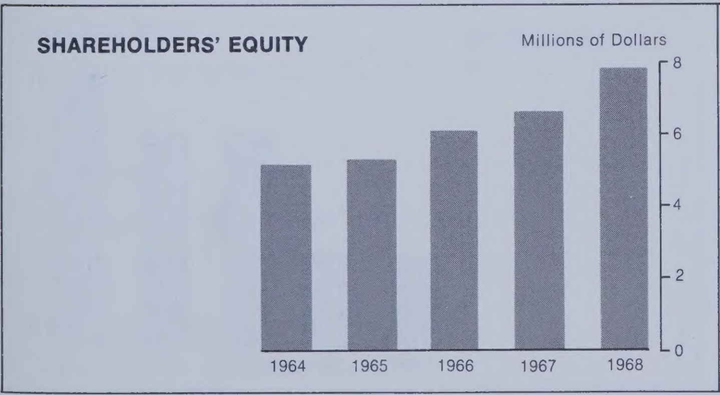
Note D — During the year, the Company adopted, subject to stockholder approval, an Executive Employee Restricted Stock Plan. Under the Plan, the Company may, at its option, issue up to 35,000 shares of its common stock in lieu of cash in payment of bonuses to designated executives for its fiscal years ending in 1968 through 1972.

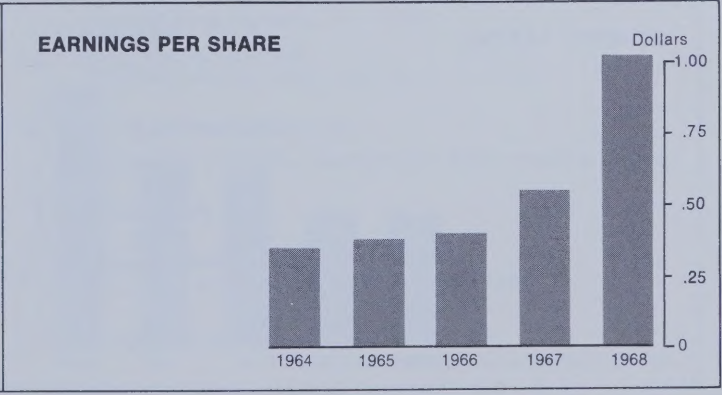
The accompanying financial statements include an accrual of $75,000 for the year ended September 30, 1968 for such bonuses, all or part of which may be paid in shares of the Company's common stock. Applying the formula in the plan, approximately 5,000 shares would have been issued in satisfaction of the foregoing bonus for the year ended September 30, 1968.

General — The Company presently intends to acquire all of the capital stock of another company in exchange for a maximum of 31,288 shares of its common stock and will account for such transaction as a pooling of interests. Consummation of this transaction would not materially affect the accompanying financial statements.

Although a portion of the consolidated sales have been made under Government contracts or purchase orders in connection therewith, it is the opinion of management that such sales are not subject to renegotiation.

The Company has guaranteed a $500,000 overdraft facility (incurred subsequent to September 30, 1968) obtained by a foreign subsidiary. The money was used to pay a portion of an obligation owing to the Company by such subsidiary.

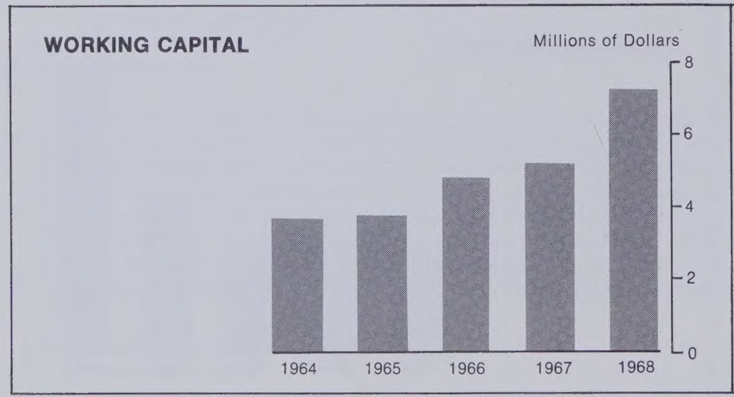

SHAREHOLDERS' EQUITY

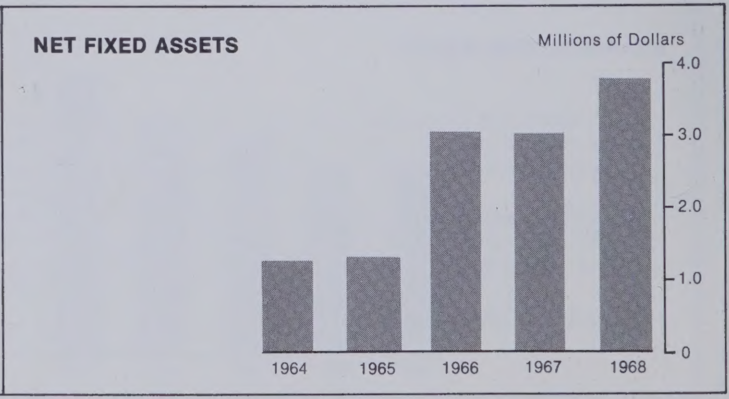

EARNINGS PER SHARE

CONSOLIDATED STATEMENT OF FUNDS

VEECO INSTRUMENTS INC. and Subsidiary Companies

	Year ended September 30 1968	1967
Resources provided by:		
Net income for the year	$1,091,299	$580,836
Provisions for:		
Depreciation	324,218	288,308
Deferred taxes and credits	51,522	21,022
	1,467,039	890,166
Proceeds of stock options and warrants exercised	135,203	35,625
Long-term loan	3,500,000	——
Decrease in other assets	86,658	——
	$5,188,900	$925,791
Resources applied to:		
Acquisition of fixed assets — net	$1,077,644	$279,430
Increase in other assets	——	41,246
Decrease in long-term debt (including installment payments shown as current liability and, in 1968, $1,358,518 repaid with proceeds of long-term loan)	1,826,469	200,792
Increase in working capital	2,284,787	404,323
	$5,188,900	$925,791


WORKING CAPITAL


NET FIXED ASSETS

VEECO INSTRUMENTS INC.

October 1, 1967 to September 30, 1968

Board of Directors

Albert Nerken, *Chairman of the Board*

Frank Raible, *President*

Murray Rosenzweig, *Certified Public Accountant*

David Lubart,
Partner, Stroock & Stroock & Lavan, Attorneys

John Lehman,
Partner, Lehman Brothers, Investment Bankers

Officers

Frank Raible, *President and Chief Executive Officer*

Robert L. Dietrichson, *Vice President, Marketing*

Simeon Weston, *Vice President, Engineering*

James J. Sullivan, *Vice President, Manufacturing*

Allen E. Busching, *Vice President, Administration*

Albert Nerken, *Treasurer*

David Lubart, *Secretary*

Registrar

Franklin National Bank, Mineola, L.I., N.Y.

Transfer Agent

The Chase Manhattan Bank, New York, N.Y.

Accountants

S. D. Leidesdorf & Co., New York, N.Y.

Executive Offices

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OFFICES, SUBSIDIARIES AND OTHER FACILITIES

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Eastern Region
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Regional Office: 182 Forbes Road, Suite 4, Braintree, Mass. 02184

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Central Region
Regional Office: 777 So. Central Expressway, Richardson, Texas 75080

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Regional Office and West Coast Warehouse:
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